



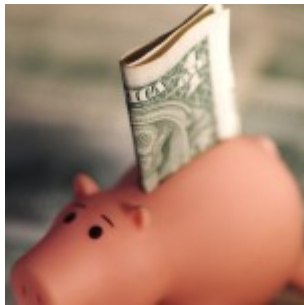
Community and Economic Development in North Carolina and Beyond Blog: Building savings among rural low-income families

By CED Guest Author

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Over the past three decades, there has been a realization among many in the community

development field that income-based poverty reduction programs, while potentially helpful in alleviating some of the day-to-day effects of poverty, have not been successful at helping individuals and families move out of poverty and get ahead. Assets, instead of income, are increasingly viewed as necessary for the long-term economic and social development of individuals, families, and communities, with holding assets linked to positive effects on education, health, child outcomes, and civic participation. Assets can help families survive economic crises and hard times by giving them a cushion and can lead to the acquiring of further resources.

Individual development accounts (IDAs) and child development accounts (CDAs) are poverty reduction tools that have the potential to make a difference in rural North Carolina communities. IDAs are matched savings accounts geared toward low- and moderate-income households to assist them in building wealth to use for purchasing or investing in a major asset, such as a home, education, or a business. The programs are time-limited (usually 1-4 years); include general and asset-specific financial education; require a minimum monthly savings amount; and require the participant to save a target amount over the time period in order to receive the match.

Once the target savings amount is reached within the set time period, the host organization matches the savings. Match ratios typically range from 1:1 to 5:1 and sometimes are as high as an 8:1 match ratio, but most match ratios in NC programs tend to be 1:1 or 2:1. The most common allowed uses of the money are purchasing a home, starting a business, or furthering education, but some programs allow participants to use their savings to repair or upgrade a home, purchase a car or computer, or contribute to retirement accounts. In North Carolina, all IDA program participants must use their money for a home purchase, funding education or training, or starting a small business. Studies of large-scale pilot IDA programs have shown that the poor can indeed save money and result in better educational outcomes for children and positive psychological effects on children and families.

Newer than IDAs, CDAs are similar in that they are matched savings programs usually to be used for education, starting a business, or a down payment on a home. The main difference is that CDAs are geared towards children and usually start at birth or within the first few years of the child's life. The idea is that building assets is a long-term process that has the potential to provide greater lifetime benefits and asset accumulation potential the earlier it is started. Further, it is easier to teach financial literacy principles and skills to children than to change attitudes later in life, and there is the potential for the program to reach a wider audience than the children, as the larger family is often engaged in the asset-building activities.

However, there are several challenges to the development and use of IDAs and CDAs in general and specific to rural communities. IDAs and CDAs often require a fair amount of capital to get the programs running both for the matched



savings amounts and for administrative costs. While there are sources for the matched savings funding available in North Carolina, funding for administrative costs is more difficult to find. More specific to rural communities, IDAs may be less attractive to rural residents because of the lack of accessibility and convenience due to participants' distance from the required financial education classes. From the organizational perspective, a more dispersed population and transportation hurdles often means that rural programs have a more difficult time identifying and recruiting participants. At the community-wide level, some rural areas may lack the necessary infrastructure for the running of a successful IDA or CDA program, particularly in terms of program support, staff, sufficient matching funds, and area financial services.

Despite the struggles that rural IDA programs may face, there are a number of approaches that can be used that may increase the likelihood of success of the program. For example, in Wilson County, NC, the Wilson Community Improvement Association (WCIA) and the Wilson County Department of Social Services have teamed up to offer an IDA program in their county. This partnership is critical to the effective use of limited resources and for the benefit of program participants. WCIA has the experience and expertise in helping low- and moderate-income individuals and families purchase homes, while Wilson County DSS had established financial education and coaching programs. Through this partnership, the two organizations provide better services to the IDA program participants, and the limited resources available in the rural county are more effectively and efficiently used.

In rural Mississippi and Arkansas, Southern Good Faith Fund (SGFF) operates one of the oldest, largest, and most successful IDA programs in the country. The success of the IDA program is due to a variety of factors, but among the reasons is SGFF's strategic use of existing relationships and formation of new partnerships. SGFF's affiliation with Southern Bancorp, the largest rural development bank in the U.S., was critical to the funding, development, and growth of the IDA program in its beginning years. Further, through its affiliation and SGFF's already-established presence in the region, SGFF has partnered with more than twelve different banks or credit unions in various communities throughout the region to provide the needed (and no-fee) banking accounts and services to program participants. These relationships are crucial to the effective running of any IDA program but are particularly important in rural areas, where an organization's service area may cover a significant amount of territory.

Thus, despite the challenges, IDAs and CDAs seem to have the potential to serve a crucial role in community and economic development in rural communities through reducing poverty and building individual and community capacity. While these programs require a great deal of organizational capacity, funding, and broader community support, organizations like the IDA & Asset Building Collaborative of NC provide technical assistance and training for existing and new IDA programs in this state and are great support resources.